Coventry City Council

Public report

Report to

Audit and Procurement Committee   21st October 2013

Name of Cabinet Member:
Cabinet Member (Strategic Finance & Resources) – Councillor Gannon

Director approving submission of the report:
Executive Director, Resources

Ward(s) affected:
City Wide

Title:
Internal Audit Plan 2013-14 – Half Yearly Progress Report

Is this a key decision?
No

Executive summary:

The purpose of this report is to provide the Audit and Procurement Committee with an update on the Council's Internal Audit Service activity for the period April to September 2013, against the agreed Internal Audit Plan for 2013-14.

Recommendations:

Audit and Procurement Committee is recommended to:

1. Note the performance as at quarter two against the Internal Audit Plan for 2013-14.

2. Consider the summary findings of the key audit reviews (attached at Appendix Two), and to decide whether the agreed focus of improvements identified and the timescales agreed for implementation for each review is appropriate.

List of Appendices included:

Appendix One - Audit Reviews Completed between April and September 2013
Appendix Two - Summary Findings from Key Audit Reports

Other useful background papers:

None

Has it or will it be considered by scrutiny?

No other scrutiny consideration other than the Audit and Procurement Committee

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:
Internal Audit Plan 2013-14 – Half Yearly Progress Report

1.   Context (or background)

1.1   At its meeting on the 10th April 2013, the previous Audit Committee approved the Council's Internal Audit Plan for 2013-14. This report is the first monitoring report for 2013-14, which is presented in order for the Audit and Procurement Committee to discharge its responsibility 'to consider summaries of specific internal audit reports as requested' and 'to consider reports dealing with the management and performance of internal audit'.

2.   Options considered and recommended proposal

2.1   **Delivering the Audit Plan**

The key target facing the Internal Audit and Risk Service is to complete 90% of its work plan by the 31st March 2014. The chart below provides analysis of progress against planned work for the period April to September 2013.

Chart One: Performance of Internal Audit 2013-14
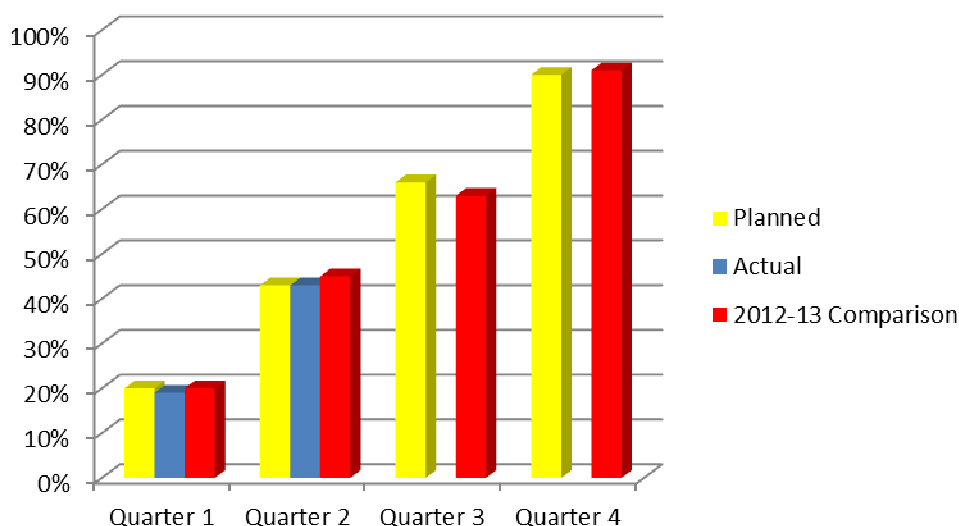
In the first half of 2013-14, the Service performance is slightly below expectations in that we have delivered 43% of our Audit Plan against a target of 45%. To provide context, the Service is also involved in a number of ad-hoc pieces of work not reflected in the performance highlighted, including:

- Representation on various project / boards including:

  ➢ Procurement Board
  ➢ Money Matters Steering Group
  ➢ Welfare Reform Co-ordination Group
  ➢ Direct Payments Steering Group
  ➢ Care Director Project Board

- In support of the planned implementation of the Council's new financial system, the team is working with specific areas in ensuring that, from an audit perspective, expected control requirements are built into the system before it goes live.

- The Internal Audit and Risk Manager is leading on the business continuity and information governance workstream of the Kickstart Project. His primary role, with the support from the wider team is to advise departments on document retention and disposal requirements, with the aim of rationalising both paper usage and storage requirements ahead of the move to the Council's new office at Friargate in 2016.

2.2 Other Key Performance Indicators (KPIs)

The table below shows a summary of the performance of Internal Audit for 2013-14 to date against five KPIs, with comparative figures for 2012-13.

Performance Measure	Target	Performance Q2 2013-14	Performance 2012-13
Planned Days Delivered (Pro rota against agreed plan)	100%	98%	100%
Productive Time of Team (% of work time spent on audit work)	90%	89%	87%
Draft Report to Deadline (Draft issued in line with date agreed)	80%	72%	73%
Final Report to Deadline (Final issued within 4 weeks of draft)	80%	88%	92%
Audit Delivered within Budget Days	80%	70%	72%

There are two indicators where performance is currently significantly behind the target, namely draft report to deadline and audit delivered within budget days. Management will continue to focus on these areas as part the ongoing drive on efficiency within the Service, whilst ensuring this does not impact on the quality of work produced.

2.3 Audits Completed to Date

Attached at Appendix One is a list of the audits finalised between April and September 2013, along with the level of assurance provided.

The following audits are currently in progress:

- **Audits at Draft Report Stage** – Route 21, Discretionary Housing Payments.

- **Audits Ongoing** – Primary schools (Parkgate, Hollyfast, Limbrick Wood, Ravensdale, John Gulson and Willenhall Community), as well as Data Protection, Public Health, Heritage Assets, Local Enterprise Partnership, Hospitality Registers, Senior Officer Expenses, Project Risk Management and Libraries Cash Collection.

Details of a small selection of key reviews completed in this period are provided at Appendix Two. In all cases, the relevant managers have agreed to address the issues raised in line with the timescale stated. These reviews will be followed up in due course and the outcomes reported to the Audit and Procurement Committee.

3.   Results of consultation undertaken

3.1   None

4.   Timetable for implementing this decision

4.1   There is no implementation timetable as this is a monitoring report.

5.   Comments from the Executive Director Resources

5.1   Financial Implications

There are no specific financial implications associated with this report. Internal audit work has clear and direct effects, through the recommendations made, to help improve value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

5.2   Legal implications

There are no legal implications associated with this report.

6.   Other implications

6.1   **How will this contribute to achievement of the council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?**

Internal Audit is defined as "an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources". As such the work of Internal Audit is directly linked to the Council's key objectives / priorities with specific focus agreed on an annual basis, and reflected in the annual Internal Audit Plan.

6.2   **How is risk being managed?**

In terms of risk management, there are two focuses:

- Internal Audit and Risk Service perspective - The main risks facing the Service are that the planned programme of audits is not completed, and that the quality of audit reviews fails to meet customer expectations. Both these risks are managed through defined processes (i.e. planning and quality assurance) within the Service, with the outcomes included in reports to the Audit and Procurement Committee.

- Wider Council perspective - The key risk that exists is that actions agreed in individual audits to improve the control environment, and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within

the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Audit and Procurement Committee. Where progress has not been made, further action is agreed and overseen by the Audit and Procurement Committee to ensure prompt action is taken.

6.2 **What is the impact on the organisation?**

None

6.4 **Equalities / EIA**

None

6.5 **Implications for (or impact on) the environment**

No impact

6.6 **Implications for partner organisations?**

None

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Legal: Andrew Burton	Solicitor	Resources	02/10/2013	02/10/2013

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Appendix One – Audit Reviews Completed between April and September 2013

Audit Area	Audit Title	Assurance
2012-13 b/fwd	Major Project – Street Lighting PFI	Moderate
	ICT – Systems Back Up, Recovery and Data Centre	Limited
	ICT – Firewall and Patch Management	Significant
	Care Director – Income	Significant
	Care Director – Expenditure*	Moderate
	Risk Management Annual Review	Moderate
	Procurement Review – Highways	Fact Finding
	Payroll – Ad-hoc Payments	Compliance
Schools	All Saints	Significant
	Gosford Park	Significant
	Allesley Primary	Moderate
	Coundon Primary	Significant
	Richard Lee	Significant
	Joseph Cash	Significant
	St Gregory	Significant
	Eastern Green	Significant
	St Andrews	Significant
	Holbrooks	Significant
	Howes	Moderate
Corporate Risk	Safeguarding Adults	Moderate
Key Priorities	ICT – Server Virtualisation	Significant
	Procurement Review – City Centre and Development Services	Fact Finding
Finance Systems	Business Rates	Moderate
	CNR	Significant
Regularity	Trouble Families Programme Grant	Validation
	Section 256 Funding Return	Validation
	Local Government Pension Scheme Return	Validation
	Teachers' Pension Scheme Return	Validation
	Carbon Reduction Commitment Return	Validation
	National Transportation Safety Board Grant	Validation
	Annual Governance Statement*	Not Applicable
	Review of the System of Internal Audit*	Not Applicable
	Officer Declaration of Interest Annual Exercise	Not Applicable
Contingency	IT Project Change Control Procedure	Fact Finding
	Maurice Edelmen House	Significant
Follow Up	Network Security	Limited
	Stanton Bridge Primary	Moderate
	Reed Recruitment Agency - Contract Monitoring*	Significant
	Complaints*	Significant
	Housing Benefits Overpayments*	Moderate
	Elm Bank Financial Procedures	Significant
	Coundon Centre Financial Procedures	Moderate

* Key findings of reviews already considered by the Audit and Procurement Committee in July / August 2013

Appendix Two – Summary Findings from Key Audit Reports Completed between April and September 2013

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
Risk Management **March 2014** **Assistant Director – Special Projects Finance and Internal Audit and Risk Manager**	**Overall Objective:** To ensure the Council has effective risk management arrangements in place. **Opinion**: Moderate Assurance **Summary / Actions Identified:** Our review has found evidence of robust challenge and open debate of corporate risk issues with officers of the Council's Management Board and the Internal Audit and Risk Manager. And while acknowledging that the five directorates are at different stages in embedding their own, local risk management practices, it was evident from the review that the self-service approach has led to the development of local procedures and has been the stimuli for directorate management teams where appropriate to take a fresh look at the risks faced. The review recognised the following areas of good practice: • Corporate risks and the Corporate Risk Register are discussed and managed by officers of the Council's Management Board, with the Internal Audit and Risk Manager providing an appropriate level of challenge and input into corporate risk issues, as well as facilitating Audit and Procurement Committee and Cabinet oversight. • A concerted effort on the part of officers of directorate management teams to embrace the Council's ethos of manager self-service in respect of risk management, developing local procedures, reassessing risks, leading to a refresh of directorate risk registers. The opinion provided reflects the fact that the Council's adoption of a self-service approach to risk management, with no dedicated central oversight of risk management across the Council, limits the level of assurance we can provide in this area. Further, with the potential reconfiguration of the Council's structure to three directorates reflecting the key themes of 'people, place and resources', the potential impact of this significant structural change may necessitate a re-assessment of the Council's current risk management arrangements. The review has highlighted the following areas where improvement can be made: • For the Internal Audit and Risk Manager to attend, once a year, each directorate's management team meetings review of their risk register, providing an appropriate level of challenge and independent view of the directorate risk register. • To reiterate to directorate management teams the requirement that Cabinet Members receive half yearly updates on directorate risks that fall within their area of responsibility, clarifying the need for an audit trail of the risks discussed, to demonstrate the engagement of Cabinet Members in the management of directorate risks.

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
Business Rates **March 2014** **Assistant Director – Revenue and Benefits**	**Overall Objective:** To ensure that the Council has robust systems in place to ensure it effectively identifies, calculates and collects all income due to be paid for business rates. **Opinion**: Moderate Assurance **Summary / Actions Identified:** The following areas of good practice were identified: • Correct charges, based on the appropriate rateable value and liability date, are raised after processing the Valuation Office Agency schedules. • Account refunds are subject to appropriate oversight and control. • Management and monitoring of accounts sent to the bailiffs. The assurance level provided reflects our view that the Council's current processes do not provide consistent or systematic on-going validation of the awarding of exemptions / reliefs, potentially resulting in a loss of income for the Council. While acknowledging the planned review of current working practices, the audit has identified the need for a complete reconsideration of the framework that supports the validation of the award of exemptions and reliefs to maximise the business rate revenue collected. This is reflected in the following key areas for improvement identified: • To undertake a review of the verification processes for empty property exemptions and mandatory / discretionary charity reliefs, with the focus being the validation of information provided by the organisation / business in support of the application, and for the continued eligibility of the award. • To process the debt write-offs that are outstanding with the Enforcement Team and review the Council's approach to writing off multiple business rate debts to ensure transparency in the decision making process. • To ensure appropriate and timely recovery action is taken through prioritising and targeting accounts.

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
Network Security Follow up **December 2013** **Assistant Director - ICT**	**Overall Objective:** To provide assurance that agreed actions have been implemented to ensure that the Council now has effective systems in place to manage the risks associated with Network Security within the Council. **Opinion**: Limited Assurance **Summary / Actions Identified:** A summary of the progress made against the agreed actions is shown below:

Number of Actions	High Risk Actions Agreed	High Risk Actions Implemented	Medium Risk Actions Agreed	Medium Risk Actions Implemented
22	7	4	15	10

Key actions implemented since the last review include:

- Significant progress has been taken to limit access to the network.
- A second data centre is in the process of being set up in Nuneaton and will be operational by October / November 2013. This will provide further resilience in the event of network failure.
- The scope of penetration testing that is carried out on the Council's network has been extended to include external facing firewalls.
- The solar winds project has been implemented which ensures that secure standard device configuration settings are maintained for all key network devices.

It should be noted that for six of the eight actions outstanding, there are, in our opinion, justifiable reasons for the limited progress to date. This include actions (a) which are being progressed as part of on-going projects connected to the network, namely the Active Directory and Network Modernisation projects, and / or (b) which require approval of a business case. In terms of the high risk actions not implemented, these are:

- The need to make further changes to the Domain Accounts Policy including configuring intruder detection settings, renaming the built in "administrator" and "guest " accounts and removing powerful system privileges where not required.
- The need to ensure that all firewalls are appropriately secure either through regular updating or by being replaced as part of the Network Modernisation project.

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
Systems Back Up, Recovery and Data Centre **March 2014** **Assistant Director - ICT**	**Overall Objective:** To ensure that effective arrangements are in place so that the Council can continue to provide services in the event of an unexpected disruption to normal system processing or loss / corruption to council data. **Opinion**: Limited Assurance **Summary / Actions Identified:** The review recognised the following good practice: • The main system that is used to support the operation of the backups is CommVault. The backups are performed to tape. Data mirroring is also performed using tools such as NetApp Snap Mirror and Virtual Storage Console. These backups are performed to disk. • Each of the backup tools provides reporting on the success or failure of scheduled backups. The Infrastructure Operations Checklist spreadsheet is used to record the monitoring of backup outcomes. • The primary data centre is located within Council House. This is the Dark Machine Room ('DMR'). A secondary server room is located within a shared facility in Jackson Road ('JRD'). Both the data centre and server room were found to have effective controls in place to both restrict access and monitor the environment. The following key areas for improvement identified: • Whilst acknowledging back up arrangements are in place, these have been determined by ICT based on its knowledge of the systems in use. Recommended practice is that Business management, with support from ICT, should identify the Council's critical IT systems. These systems should be identified based on a formal risk assessment and with due consideration for the Council's business continuity priorities. • The Council's Backup and Media Handling Policy needs to be updated to reflect data backup and recovery requirements agreed and should be subject to approval and regular review. • In terms of operational practices, the ICT Service needs to (a) review the approach to recording and investigating backup errors and failures so that these are consistently applied, (b) ensure that all backups are stored in a location that is separate from production data and services, and (c) perform test restores of backups on a regular basis in line with agreed procedures. • To develop and implement disaster recovery arrangements for all critical IT systems. This should be supported by a recovery plan, along with procedural guidance that outlines restoration steps that need to be taken to restore systems and be subjected to testing on at least an annual basis.

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
Major Project – Street Lighting PFI **March 2014** **Assistant Director – Planning, Transport and Highways / Group Highways Manager**	**Overall Objective:** To provide assurance that the arrangements in place are being utilised to effectively manage the Street Lighting PFI contract and drive through expected benefits and achieve the best possible outcomes. **Opinion**: Moderate Assurance **Summary / Actions Identified:** The review recognised the following good practice: • Governance mechanisms exist to facilitate issue resolution and support the development of a good working relationship between the Council and the provider. • The Core Investment Programme is currently 2,000 assets ahead of schedule and milestones are being achieved. • Reports on progress of the PFI contract are being presented to Members on an annual basis. The following key areas for improvement identified: • Ensure contingency plans are in place in respect of the ongoing role of the contract project manager. • To re-evaluate the PFI agreement on a regular basis to ensure opportunities to realign performance and service requirements are identified and continued project affordability is maintained. • Complete the development of an operational contract manual and comprehensive processes and procedures. • In conjunction with the provider, develop and manage a joint risk register for the PFI contract, which is consistent with corporate risk management arrangements.